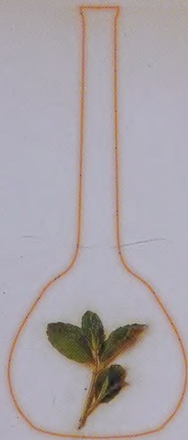
2003
ANNUAL REPORT



Extracting

Enhancing

Earning

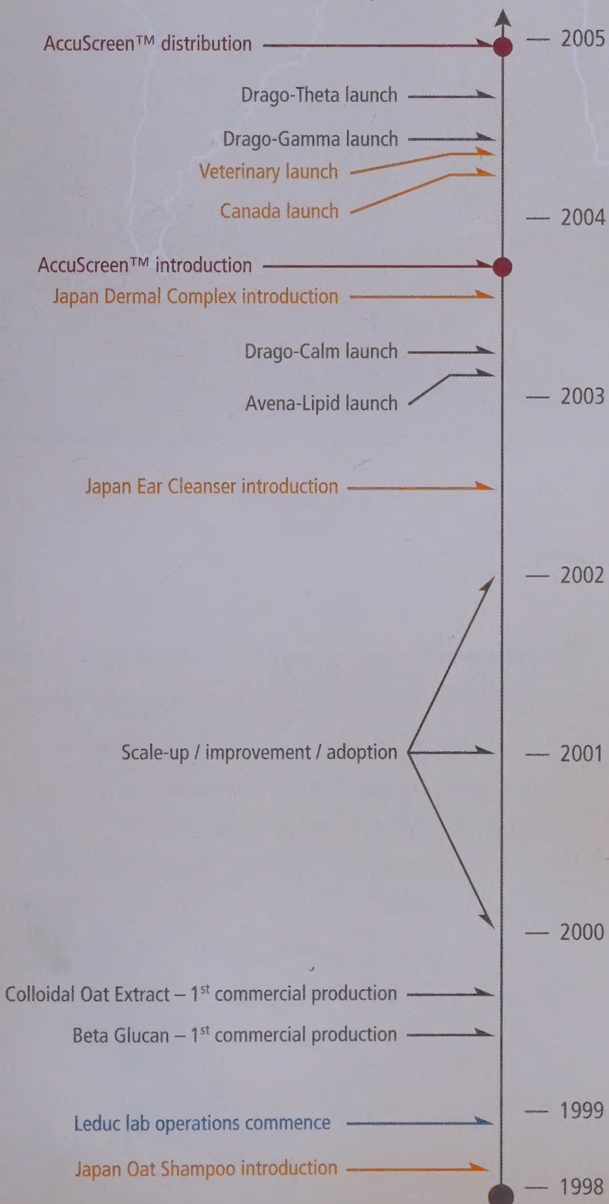
CEAPRO
Nature Enhancing Life®

NATURE *Enhancing* LIFE

Ceapro is a biotechnology company that develops and commercializes natural products for medical, cosmetic, and animal health industries using proprietary technology and renewable resources.

Product Timeline

CEAPRO
Nature Enhancing Life®



Revenue ($ millions)

Dear Fellow Shareholders,

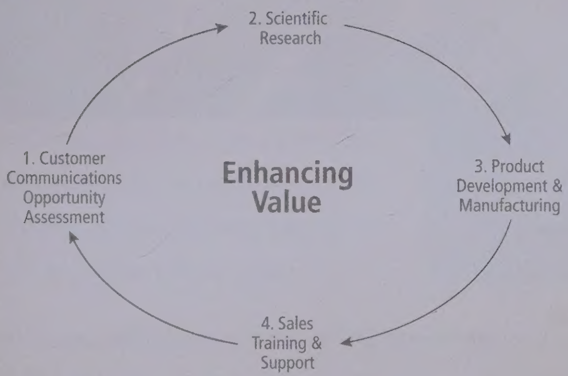
I am delighted to report that Ceapro delivered a strong financial performance in 2003. The power of our innovative technology delivered our best year to date.

Ceapro's success arises from proven expertise in extracting nature's vitality, enhancing product performance through our technology, and earning returns for our shareholders. Strong demand for our products drove top-line growth and improved bottom-line performance.

Our financial position further improved through enhanced efficiency of operations and debt reduction. As we enter 2004, I believe we will continue to deliver strong corporate growth as Ceapro expands its market and introduces new oat-derived active ingredients and therapeutic products. To sustain long-term growth Ceapro will move beyond its oat-product base and into other natural botanical materials. We will turn our platform extraction technology into an integrated commercialization engine, generating significant revenues and returns on invested capital in a realistic time-frame.

"We shall sustain growth in all divisions: people, process, product, profit, and performance."

Ceapro's business growth depends on enhancing the market value of its technology. For greater effectiveness we reorganized our marketing, sales, and scientific resources to work directly with our customers and the end-users of our technology. At all times, our customers have direct access to the person with the most pertinent expertise, and our people develop a clear understanding of the market's needs. Our employees' skills and the versatility of Ceapro technology sparks inspiration and creates innovative solutions, which, with on-going customer input, support, and training, result in rapid technology adoption and sales.



Our value-enhancing strategy has moved Ceapro into closer relationships with our partners, developing trust and reliance on each other's strengths. We are confident this strategy will lead to new and strong business opportunities. The strategy is key to Ceapro's financial goal of creating shareholder value through achieving leading positions in our markets.

"We have developed significant relationships with leading companies in the world. This not only confirms our credibility, it brings us access to larger markets – and greater revenues. What differentiates us?

We do not stand behind our partners, we stand alongside them."

— Dr. Mark Redmond

Growing To Meet Global Demand

Active ingredients

Ceapro extracts a proprietary range of active ingredients from natural botanical sources. Ceapro's extraction technology, derived from the science used to make human medicines and vaccines, is used to extract, isolate, and formulate natural compounds. Used in association with our scientific methods of quality insurance and quality control, chemical finger-printing and bio-assay, Ceapro technology assures customers of functional extracts with distinct performance advantages.

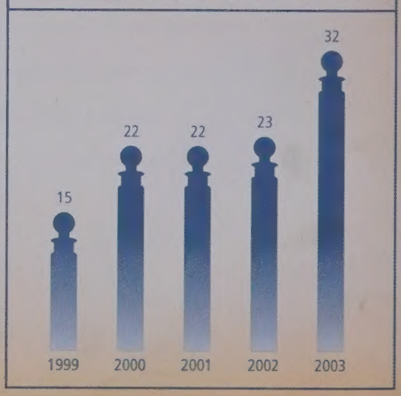
Today, Ceapro's product range is based on oats *(Avena sativa)*. In the future, Ceapro will apply its platform extraction technology and expertise to other plants grown in Western Canada that are sources of unique and efficacious active ingredients.

Innovation

Our expertise and leading patent position in key areas of beta glucan technology has allowed Ceapro to expand its repertoire of applications to include drug-delivery. In 2003, Ceapro scientists were the first in the world to demonstrate the penetration of beta glucan into the skin. This finding is expected to provide

A biotechnology company's value lies in its intellectual capital. Our skilled technologists are expanding our patent portfolio, adding value and building on our proprietary position.

Patents Issued and Pending



"To sustain long-term growth, we are moving Ceapro beyond oats and into other natural botanical sources . . ."

Ceapro with a new and exciting future market opportunity.

Growing to meet the demand for extracts

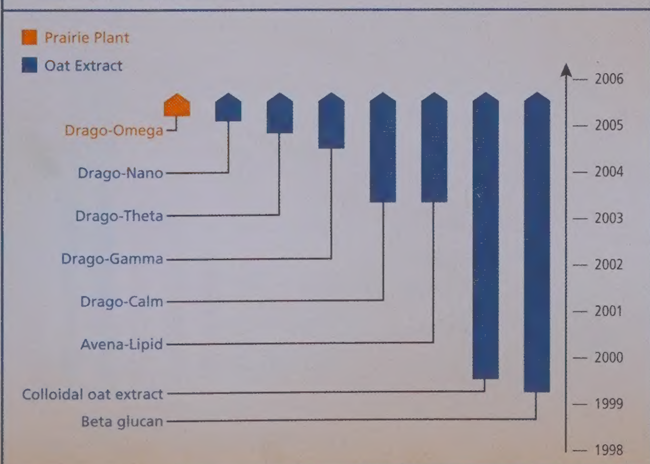
The increased demand for extracts gave Ceapro the confidence to commence a staged capital-equipment program. During 2003, we added large-scale process ultra-filtration and reverse-osmosis equipment. In 2004, we plan further acquisitions to enhance operations and capacity.

Enhancing margins

The acquisition of new equipment in 2003 allowed Ceapro to capture greater margins based on improved economies of scale. The capital-equipment program will extend these gains further and prepare the Company for the production of new and high volume products scheduled for introduction over the next year.

The capital-equipment program will also prepare Ceapro to relocate to its own facilities.

Product Timeline



"Our customers are looking for more than just natural products; they demand functional extracts produced to pharmaceutical standards. Ceapro has the technology to meet today's demands and, by applying our science to new plants, we will ensure Ceapro has products for tomorrow."

— David Fielder, M.Sc.

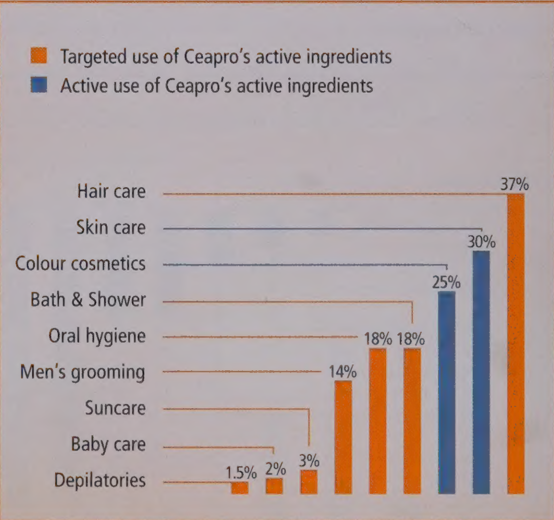
Enhancing

Active Ingredients for Superior Performance

The effective and innovative active ingredients developed and produced by Ceapro address the special needs of the cosmetic and personal care industry. As a result of our value-enhancing partnership strategy, all the world's leading cosmetic and personal companies now work with our active ingredients in a broad range of applications.

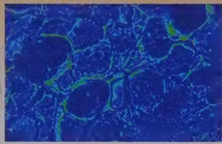
Seventy percent of all humans admit to having sensitive skin. Exposure to increased levels of UV radiation, air pollution, and dry indoor environments increasingly stress our skin and hair. These conditions create an increased demand for products with skin-calming and protective effects. In response to this demand, Ceapro developed and introduced Drago-Calm, a new and potent active ingredient derived from oats.

2003 Top Applications (% of market)



"... extracting new active ingredients that inspire creativity ..."

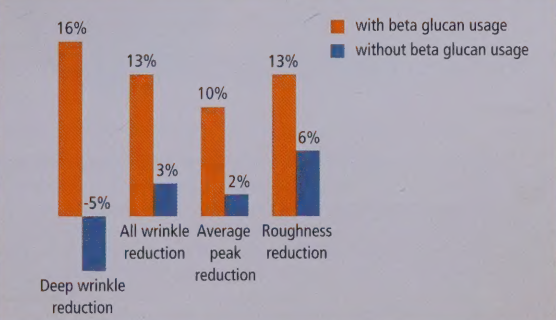
In 2003, Ceapro scientists were the first in the world to demonstrate the penetration of beta glucan into the skin. This important finding is expected to allow Ceapro to enter new markets. Of particular significance is the market for anti-aging, which according to a European survey by Mintel, 'keeping looking young' is the most important factor for cosmetics consumers across the EU, Japan, and the US. This represents the fastest growing sector in a global industry and is valued at more than $30 billion.



Beta glucan penetrating the skin is demonstrated by bright yellow fluorescence.

The penetration of beta glucan is critical to inducing cellular activities which lead to the restructuring of skin, as demonstrated by the reduction of fine lines and wrinkles.

BETA GLUCAN REDUCES FACIAL LINES AND WRINKLES



"Launching products is a bit like being a parent. You nurture them, watch them grow, feel protective of them. You want them to have every advantage possible. Whatever I can do in this regard is my ultimate goal."

— Laurie Lanuke

NEW IN 2003

Ceapro introduces Avena-Lipid and Drago-Calm. Two new products are planned for 2004.

AVENA-LIPID

Product features:

- natural lipid rich in omega-6 essential fatty acid
- triple anti-oxidants
- vitamin E
- oat phenolic compounds
- natural emulsifier

DRAGO-CALM

Product features:

- anti-irritant
- reduces redness of skin and gum irritation
- anti-oxidant
- prevents tissue damage through redox mechanisms
- topical anti-histamine
- prevents allergic reactions and topical sensitivity

Enhancing

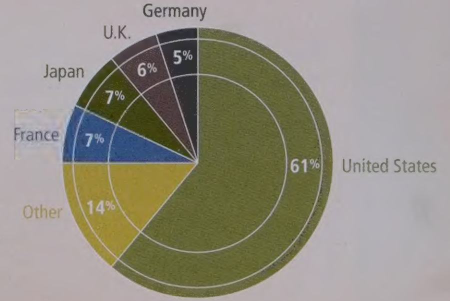
VETERINARY TREATMENT OF SKIN COMPLAINTS

We live in an age of increased awareness of animal health. Ceapro has positioned itself as a leader of innovative solutions, from preventative treatment to active therapy, for the veterinary healthcare industry. Ceapro products promote animal health and well-being through an expanding range of products specifically designed to treat targeted infections and to speed recovery.

Veterinarians are, first and foremost, medical practitioners. They look for tools, technologies, and services that support the delivery of better medicine. Practice owners are also business people, concerned with growing their practices, helping their clients, managing staff, and controlling expenses. When we deliver our advanced veterinary solutions to customers, we achieve a triple benefit: pets and pet owners appreciate superior healthcare, veterinarians succeed medically and financially, and Ceapro achieves profitable growth.

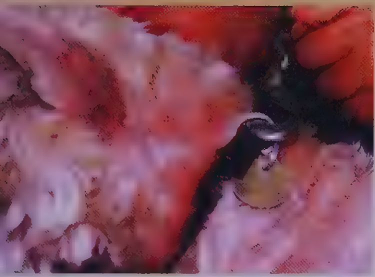
Ceapro's strategic plan is to develop a complete range of ethical veterinary products. With these products, treatment is replaced by prevention and the incidence of skin-disease is reduced.

ANIMAL HEALTH MARKETS



The new agreements completed in 2003 will expand Ceapro's market beyond the 2003 territories (10% of global market) to encompass the world's major markets.

"... providing our customers and partners with innovative and advanced solutions ..."



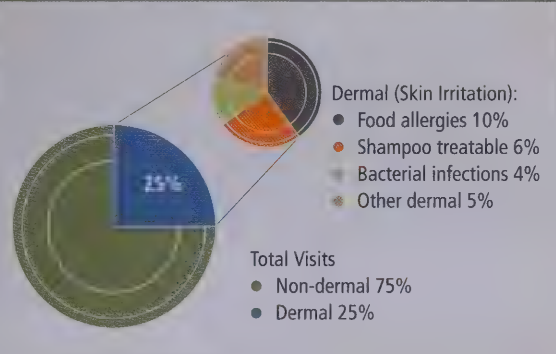
This West Highland terrier suffered with generalized *pruritus*, including severe itching, redness, and inflammations. Treatment with Ceapro's veterinary therapeutics containing oat extracts gave quick relief from discomfort and promoted rapid recovery.

"Once the North American veterinary community discovers the benefits of natural products, there will be a wave of adoption. In a mature market, such as Japan's, natural products are in huge demand. That's really the trend for the future."

— *Dr. Berney Pukay*

Most non-injury related visits to the vet concern skin irritation. This frequent challenge may be prevented by the regular use of Ceapro's products.

Reasons for Small Animal Clinic Visits



Ceapro has developed a strategic plan to develop a complete range of ethical veterinary products which address the pathway to skin disease from an integrated perspective.

Through the use of integrated products, the incidence of skin-disease is reduced and treatment replaced by prevention.

New in 2003

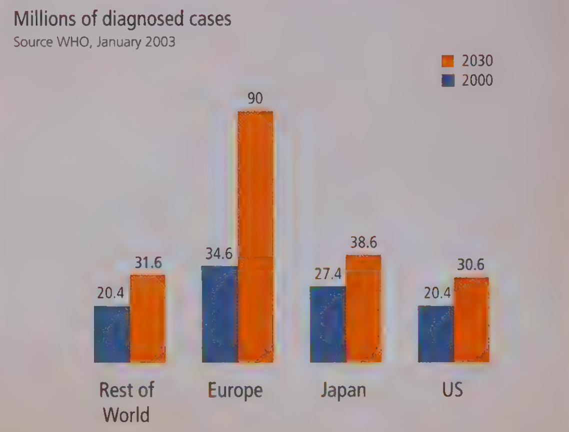
Ceapro extended its dermatological line to include Dermal Complex, a multi-function performance product designed to treat skin irritation and promote healthy skin.

Enhancing Awareness of Diabetes

Type 2 diabetes has become a global epidemic. Key factors responsible for this significant increase in diabetes include poor diet and sedentary lifestyle which results in increased body weight. It is of growing concern that these key factors influence the development of diabetes at a younger age than a decade ago.

Based on American data, the direct costs of diabetes (e.g., medications) were approximately US$132 billion in 2002. These direct costs will escalate to approximately US$192 billion by 2020. The indirect costs of diabetes include decreased productivity, decreased earning potential, and increased disability days. Along with these costs, one must also consider the personal difficulties and distress diabetes causes patients and their families.

Diabetes – An Unfolding Epidemic



370 million people with diabetes expected by 2030

"... solving significant health issues with superior technology and exceptional service ..."

AccuScreen™ profile

AccuScreen™ is a medically-validated screening tool for type 2 diabetes and pre-diabetes (also known as impaired glucose tolerance). As pre-diabetes may precede the onset of type 2 diabetes by 5 to 10 years, AccuScreen™ gives an early

warning signal to those predisposed to developing diabetes. Studies have shown that pre-diabetics can delay or prevent the onset of diabetes through lifestyle modifications.

The focus of AccuScreen™ testing is to identify people in the pre-diabetic stage, then to encourage these people to consult their family physician for further evaluation and healthy-living education. AccuScreen™ can then be used as a tool by an individual or a healthcare provider to monitor progress on an ongoing basis.

The AccuScreen™ test is as simple as eating ten highly calibrated and standardized wafers, followed by a blood test 45 minutes later. Elevated blood sugar levels indicate diabetes or pre-diabetes.

"People with pre-diabetes can delay or prevent the onset of diabetes through lifestyle changes. Enabling people to help themselves and halt the progress of this disease is the power of AccuScreen™."

— *Dr. Diana Shaw*

Enhancing

Early Detection of Diabetes

AccuScreen™ introduction strategy

On World Diabetes Day, November 14, 2003 Ceapro introduced AccuScreen™. During 2004, AccuScreen™ will be test-marketed in three distinct market sectors: industrial, to promote a healthy workplace; public health, to give general practitioners the tools to detect pre-diabetes; and Aboriginal peoples, to give these communities access to early detection of diabetes.

First Nations health strategy

While the rate of diabetes is increasing at an alarming rate around the world, it is at its highest in Canada among the Aboriginal communities. This situation was key to including the Blood Tribe, a First Nations community in southern Alberta, as one of the designated test-marketing sites for 2004.

Early Detection of Pre-Diabetes

Results from the Canadian Clinical trial centres

	Fasting Plasma Glucose	AccuScreen™	Legend
	5	11	Diabetic
Look at what other tests miss! →		44	Pre-Diabetic
	60	10	Non-Diabet

"... delivering care and assuring everyone of a healthy future ..."

Case Study

Health Canada

Sandra Shade, a member of the Blood Tribe, and a nurse who is the Co-ordinator of Kainai Home Care and runs the diabetes programs in her community, will administer the southern Alberta portion of the AccuScreen™ test program.

"This new product offers an exciting opportunity for us to help slow the diabetes epidemic that is occurring globally. While diabetes presently affects about 5% of the Canadian population, it is far higher in Aboriginal peoples. What is even worse is that many people have diabetes but have not been diagnosed, so they are not being treated. This simple test will enable us to quickly and effectively screen our people for pre-diabetes and diabetes. We can then provide them with education and counselling to prevent the onset of the disease," said Shade.

To date, the test-marketing approach with the Blood Tribe has been to organize morning meetings at the Kainai Home Care Community Centre. Of those tested, approximately 50% have been identified as pre-diabetic. This result indicates that full-blown diabetes is effectively diagnosed in this community, but many of those with pre-diabetes are missed. Pre-diabetes is efficiently identified with AccuScreen™ and those highlighted are recommended to follow up with their family physician for diagnosis, treatment, education, and counselling.

"Ceapro's shareholders have long recognized the importance of AccuScreen™. Since formally introducing the technology, leaders in our federal and provincial governments, industry, and healthcare, have offered us tremendous support and encouragement in bringing AccuScreen™ to the world.

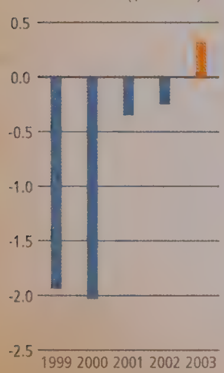
— Ken Pilip, M.Sc., P.Eng.

Earning

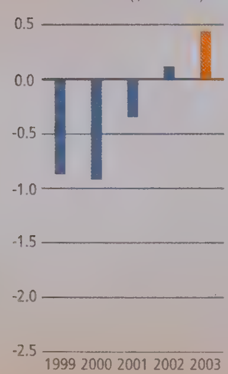
Summary of Financial Information

	1999	2000	2001	2002	**2003**
Operations					
Product sales	$ 326,373	$ 808,854	$ 1,149,443	$1,487,188	**$ 2,218,262**
Royalty and license revenues	298,000	–	–	114,739	**206,098**
	624,373	808,854	1,149,443	1,601,927	**2,424,360**
Income (loss) from operations	(407,851)	(609,549)	(617,736)	(65,459)	**121,738**
Research and new product development expenses	278,564	293,428	205,887	259,915	**353,744**
Other income (expenses)	(182,655)	(12,918)	477,520	441,148	**674,044**
Income (loss) for the year	(869,070)	(915,895)	(346,103)	115,774	**442,038**
Cash flow					
Cash flow (used in) operations	(306,678)	(759,412)	(728,253)	(90,917)	**70,571**
Cash flow (used for) investing	(31,667)	(30,563)	(11,411)	(196,341)	**(133,637)**
Cash flow from financing activities	355,036	803,631	752,795	261,843	**286,117**
Increase (decrease) in cash	16,691	13,656	13,131	(25,415)	**(223,051)**
Financial position					
Current assets	167,414	180,570	272,589	371,836	**908,124**
Total assets	291,341	294,148	373,326	645,347	**1,255,312**
Working capital (deficiency)	(1,942,106)	(2,031,097)	(351,404)	(250,508)	**286,090**
Shareholders' equity (deficiency)	$ (1,897,833)	$ (2,390,977)	$ (1,137,304)	$ (652,969)	**$ 382,230**

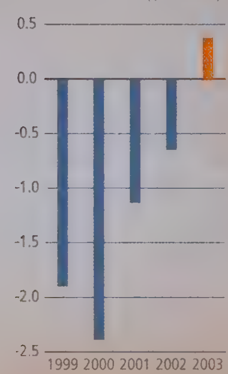
Working Capital
($ million)



Income (loss)
($ million)



Shareholders' Equity
($ million)



"...and creating lasting value."

Over the last year, Management has continued to focus on increasing sales and improving gross margins, further enhancing Ceapro's profitable position. The successful completion of private placement financings during the year aided in strengthening the overall financial position of the Company. The results for 2003 mark another year of significant progress and achievement in the core areas of the business.

MAJOR FINANCIAL HIGHLIGHTS FOR 2003

- Increased product sales by $731,000 or 49%
- Increased royalties and licenses revenue by $91,000 or 80%
- Increase in sales volumes of 72%
- Increased gross margin by $532,000 or 70%
- Increase in net income by $326,000 or 281%
- Working capital improved by $537,000 from a deficit of $251,000 at the end of 2002 to a balance of $286,000 at December 2003

"Ceapro's financial results [illegible] our team's drive to commercialize first-class products and cultivate sound partnerships. The successes in 2003 provide us with a strong affirmation that continued hard work will allow us to achieve all of our goals."

— [illegible]

Extracting

Enhancing

Earning

2003 Achievements

- Launched two new active ingredients: Drago-Calm and Drago-Lipid Factors
- Lauched Dermal Complex
- Introduced AccuScreen™
- Achieved over $2 million in sales
- Eliminated working capital deficiency
- Created shareholders equity

2004 Objectives

- New active ingredients introductions (2)
- Therapeutic product launches
- Expansion of AccuScreen™ market
- Expand manufacturing capacity and development
- Advance technology

All members of Ceapro are united in our mission to be a great company for our employees, our customers, and our shareholders by creating exceptional long-term value through leadership in our chosen markets. I am pleased to report that in 2003, we achieved significant success in fulfilling our mission. As with any successful organization, we must and will raise the bar for 2004. We look forward to the opportunities ahead.

Mark Redmond

Mark Redmond
President and Chief Executive Officer

CEAPRO
Nature Enhancing Life®

Extracting

Enhancing

Earning

Management's Discussion and Analysis

Description of Business

Ceapro Inc. is incorporated under the Canadian Business Corporations Act, and its wholly-owned subsidiary Ceapro Technology Inc., is incorporated under the Alberta Business Corporations Act ("Ceapro" or the "Company"). The Company's primary business activities relate to the marketing and development of various innovative health and wellness products and technology relating to oat extracts. Ceapro is a biotechnology company that uses proprietary technology and renewable natural resources to make products for the human and animal health industries. Ceapro is committed to enhancing the health and well-being of humans and animals with the use of natural medicinal products.

Ceapro markets products that include the active ingredients beta glucan and colloidal oat extract, and veterinary therapeutic products for dermatitis and otitis. Other products and technology are in development and include a diabetes screening test and a drug-delivery platform. To fund its operations, Ceapro relies upon revenues generated from the sale of active ingredients and therapeutic products, and the proceeds of public and private offerings of equity securities, debentures, and other income offerings.

Business Strategy

Ceapro's business strategy directs the Company to:

- Increase sales and expand markets for active ingredients
- Market and develop high-value proprietary therapeutic products
- Advance new technology and form partnerships

Highlights of Operations and Financial Condition – Year Ended December 31, 2003 and 2002

Ceapro's net income for the year ended December 31, 2003, increased by $326,000 or 281% over last year. This substantial improvement was achieved by significant increases in product sales, gross margins, royalties and license revenues and other income, but was partially offset by increases in general and administration, sales and marketing, royalties, amortization, and research and product development expenses.

Over the last year, Management has continued to focus on increasing sales and improving gross margins, further enhancing Ceapro's profitable position. The successful completion of private placement financing during the year aided in strengthening the overall financial position of the Company. The results for 2003 mark another year of significant progress and achievement in the core areas of the business.

Revenue – Year Ended December 31, 2003 and 2002

Total revenues of $2,424,000, which include sales, royalty, and license fees for the year ended December 31, 2003 increased by $822,000 or 51% over last year. Product sales for the year of $2,218,000 increased by $731,000 or 49% over last year. In addition, revenues from royalties and licenses increased by 80% to $206,000. Both of these increases are a direct result of the expansion and growth achieved in Ceapro's active ingredients business.

The actual increase in the volume of product sales was 72%, substantially higher than the 49% increase in recorded sales. Notwithstanding the positive impact of the increases in product volumes, the strengthening of the Canadian dollar negatively impacted recorded sales by approximately $325,000 for the year ended December 31, 2003 as substantially all of the Company's sales are denominated in US dollars.

The gross margin of $1,290,000 increased by $532,000 or 70% – a direct result of the increase in product sales. The gross margin percentage improved by 7% to 58%, reflecting production efficiencies related to the higher volume of sales and continuing increases in the frequency and size of individual orders being placed by customers.

Expenses – Year Ended December 31, 2003 and 2002

General and Administration

General and administration expenses of $857,000 for the year ended December 31, 2003 increased by $288,000 or 51%, largely due to increases in legal expenses (net of recoveries) by $109,000, stock-based compensation and salary and benefits expenses by $113,000, investor relations and stock listing fees by $27,000, and insurance expense by $21,000.

The additional legal expenses are primarily related to legal proceedings with a former employee, an increase in the use of securities counsel for completed and proposed financings, and an increase in the need for advice from corporate counsel. The increase in stock-based compensation and salary and benefits expense relates primarily to the addition of new staff and the granting of stock options to the Board of Directors, Management, and Staff during the year.

Sales and Marketing

Sales and marketing expenses of $231,000 for the year ended December 31, 2003 increased by $27,000 or 13% largely due to an increase in time and effort working directly with customers on existing and new product sales, which was partially offset by a decrease in salaries and benefits expense due to senior management reductions compared to last year, and a decrease in consulting costs.

Royalties

Royalties expense of $179,000 for the year ended December 31, 2003 increased by $131,000 or 268%. This is directly related to the higher royalties payable to AVAC Ltd. on increased product sales over the year, and additional royalties earned by new investors who participated in Royalty offerings completed during the year.

Interest

Interest on convertible debentures and long-term debt of $48,000 for the year ended December 31, 2003 decreased by $46,000 or 49% due to the decrease in the balance of convertible debentures outstanding throughout the period, offset by increased interest on long-term debt incurred on the acquisition of manufacturing equipment used in the Company's processing operations.

Amortization

Amortization expense of $60,000 for the year ended December 31, 2003 increased by $36,000 or 154% as a direct result of the completion of the purchase, and commissioning, of new Ultra-Filtration and Reverse-Osmosis equipment used in the Company's processing operations.

Other Income

Other income of $674,000 for the year ended December 31, 2003 increased by $233,000 or 53%, largely due to an overall increase in proceeds from income offerings, which was partially offset by a foreign exchange loss resulting from the strengthening of the Canadian dollar.

Research and Product Development

Research and product development expenses of $354,000 for the year ended December 31, 2003 increased by $94,000 or 36%. During the year, the Company invested approximately $205,000 in pre-market production and further testing of AccuScreen, its diabetes screening test. The balance of these expenses relates to the development and refinement of products in both the active ingredients and therapeutic products businesses.

Liquidity and Capital Resources – Year Ended December 31, 2003 and 2002

Ceapro relies upon revenues generated from the sale of active ingredients and therapeutic products, and the proceeds of public and private offerings of equity securities, debentures, and income offerings to support its operations.

During the year ended December 31, 2003, 485,715 options were exercised at various prices, $125,608 of convertible debentures were converted to 693,933 common shares; cash of $76,210 and convertible debentures, debenture interest and other loans of $52,877 were converted to 496,488 shares relating to investments in a Royalty Income Unit offering, 433,231 shares were issued when $225,685 of warrants were exercised, and 175,665 options expired. The amount credited to share capital upon exercise of the options is the cash consideration received (if applicable), plus the fair value of the options at the time they were granted (stock-based compensation). Total common shares issued and outstanding as at December 31, 2003 were 34,169,213 (2002 – 32,211,108). Shareholders' equity improved by $1,035,000 from a deficiency of $653,000 at December 2002 to a balance of $382,000 at year end.

Ceapro's financial position improved over the last year. Working capital improved by $537,000 from a deficiency of $251,000 at the end of 2002 to a balance of $286,000 at December 2003. Notwithstanding the improvements in the Company's financial position, the Company will continue to pursue additional financing to fund ongoing working capital requirements and to secure the financial resources required to support the expected significant increases in the volume of sales of existing products, the introduction of new products to existing and new markets, and the development of new technology.

To meet future requirements, the Company intends to raise additional cash through some or all of the following methods: public or private equity or debt financing, income offerings, capital leases, and collaborative and licensing agreements. However, there is no assurance of obtaining additional financing through these arrangements on acceptable terms, if at all. The ability to generate new cash will depend on external factors, many beyond the control of the Company, as outlined in the section below. Should sufficient capital not be raised, the Company may have to delay, reduce the scope of, eliminate, or divest one or more of its discovery, research, or development technology or programs, any of which could impair the value of the business.

Financing, Principal Purposes and Milestones – Year Ended December 31, 2003 and 2002

Income offerings include the sale of interests in the net proceeds, if any, from the SGGF lawsuit and; the sale of rights to receive royalties based on Ceapro's sales or licensing of its products. In the case of the Royalty Income Units, the income offering was combined with the sale of shares and warrants of the Company.

A Director and an investor of the Company have agreed to invest (by reimbursement of direct legal costs) up to $350,000 to purchase an interest in the net proceeds, if any, from the SGGF lawsuit (see Legal Proceedings). During the year ended December 31, 2003, $253,275 (2002 – $96,725) of this commitment was received or receivable to reimburse legal costs. The Director and investor are therefore currently entitled to a 14% interest in the net proceeds, if any, from the lawsuit to a maximum of $3,500,000.

During the year ended December 31, 2003 the Company completed a private placement Royalty Interest offering, which resulted in proceeds of $141,796 (2002 – $172,401) representing the sale of a 1.418% royalty interest in the Company's future sales and licensing of active ingredients and animal health products. Maximum royalties payable are two times the amount invested. Proceeds from this private placement are included in the Company's other income.

On July 15, 2003 the Company completed a Royalty Income Unit offering through the terms described in an Offering Memorandum, which resulted in net proceeds of $635,273 (496,488 Units at $1.30 per Unit, net of related expenses). As a result, 293,115 Units ($381,049) were issued for cash consideration and 203,373 Units ($264,386) were issued in satisfaction of amounts owing to holders of debentures and other loans. Each Unit is comprised of one Class A common share of Ceapro ("Common Share"), one Class A common share purchase warrant ("Warrant"), and a royalty interest ("Royalty Interest"). Each Warrant entitled the holder thereof to acquire one Class A Common Share at an exercise price of $0.36 per share until August 31, 2003 and thereafter at a price of $0.56 per share until December 31, 2003. Each Royalty Interest is a right to

receive royalties equal to 0.00001% of the proceeds received by Ceapro from the sale or licensing of its active ingredients and animal health products, up to a maximum cumulative amount of $2.08. The Common Shares and Common Shares issued upon exercise of the warrants are subject to a hold on trading until July 15, 2004.

$506,186 (496,488 units at $1.04 per unit) of the proceeds (net of related expenses) from this private placement is included in the Company's other income. This represents the sale of a 5.163% royalty interest in the Company's future sales and licensing of active ingredients and animal health products. Maximum royalties payable are two times the original investment or $1,032,695 (representing a total interest in future sales and licensing of 5.163% on $20,000,000). 433,231 warrants were exercised prior to the December 31, 2003 deadline, which resulted in proceeds of $225,685.

Legal Proceedings

On May 5, 1998, control of the Company's wholly-owned subsidiary, Canamino Inc. ("Canamino") was assumed by Canamino's Class B preferred shareholder, the Saskatchewan Government Growth Fund Ltd. ("SGGF"), due to default of payment of dividends due in October, 1997, and the failure to redeem 500,000 Class B preferred shares as required under the subscription agreement. Control was gained through the assumption of 51% of the voting entitlement attached to the Class A common shares.

On March 22, 2002, Ceapro filed a Statement of Claim in the Court of Queen's Bench of Saskatchewan against the Government of Saskatchewan, Saskatchewan Government Growth Fund Management Corporation, Gary K. Benson, Janice MacKinnon, and Can-Oat Milling Products Inc. ("SGGF et al."). The action was launched to recover damages with respect to assets claimed to be seized wrongfully as a result of the Defendants' actions in 1998. With the filing in Saskatchewan, Ceapro stayed its action in the Court of Queen's Bench of Alberta. This action was originally filed in December 1999. The claim alleges that the Company has suffered damage to goodwill and other property, including its investment in Canamino.

As of December 31, 2003, document production has occurred and Examinations for Discovery of the Defendants has commenced. An order was obtained by Ceapro requiring the Defendants to answer their undertakings by the end of February 2004. Examinations for Discovery of the Defendants, which commenced in September 2003, are scheduled to continue in late April and into May 2004. The Plaintiff's examination is not expected to commence until the third quarter of 2004. During the year, Ceapro issued a bond relating to legal costs up to $305,000 which was secured by personal guarantees of the Board of Directors and an Executive Officer. At December 31, 2003, it is the opinion of Ceapro's Corporate Counsel, that based on the document production to date and examinations which have transpired, the likely outcome of the case is that Ceapro will be successful. At this stage of the litigation it is premature to quantify the damages which will likely be awarded at the discretion of the Court.

On March 1, 2002 Ceapro received notice of a Statement of Claim filed on February 28, 2001 by a former employee. The statement alleges that Ceapro breached certain conditions of contract between the former employee and the Company, and further breached the terms of the Employment Agreement between the parties.

As of December 31, 2003 Ceapro has filed a Statement of Defence, Affidavit of Records producing relevant documents have been provided by the Plaintiff and the Defendant, and the Examinations for Discovery have been completed.

Preparations to set this matter down for trial during the first quarter of 2004 have been completed. Based on the Examinations for Discovery, and the review of the Affidavit of Records, it is the opinion of Ceapro's Corporate Counsel that it is likely that the Company will be successful in dismissing this claim. An application to strike out the claim is schedule to be brought in the first quarter of 2004.

Risks and Uncertainties

Biotechnology companies are subject to a number of risks and uncertainties inherent in the development of any new technology. General business risks include: uncertainty in product development and related clinical trials and validation studies, the regulatory environment, for example, delays or denial of approvals to market the Company's products, the impact of technological change and competing technologies, the ability to protect and enforce the Company's patent portfolio and intellectual property assets, the ability to manufacture new products in sufficient quantities for clinical trials and market seeding, the availability of capital to finance continued and new product development, and the ability to secure strategic partners for late stage development, marketing, and distribution of the Company's products. To the extent possible, Management pursues and implements strategies to reduce or mitigate the risks associated with the Company's business.

Ceapro has exposure to risk arising from volatility in foreign exchange rates as substantially all sales of its products are denominated in US currency. The Company's expenses are primarily denominated in Canadian dollars. The Company does not currently engage in hedging or use of derivatives to reduce foreign exchange risk.

Interest rate risk is the exposure of interest revenue and expense to rate fluctuation; inflation risk is loss of purchasing power due to rising prices. Economic forecasts project a stable outlook for both interest rates and inflation in the near future; hence, these risks are expected to be negligible. Furthermore, the Company's convertible debentures and equipment lease commitments have fixed interest rates over the terms of the obligations.

Ceapro's share price is subject to equity market price risk, which may result in significant speculation and volatility of trading due to the uncertainty inherent in the Company's business and the biotechnology industry. Due to the current share price, there is a risk that future issuance of common shares may result in material dilution of share value, which may lead to further decline in share price. Finally, the expectations of securities analysts and major investors about the Company's financial or scientific results, the timing of such results and future prospects, could also have a significant effect on the future trading price of the Company's shares.

A variety of factors will affect Ceapro's future growth and operating results, including the strength and demand for the Company's products, the extent of competition in the areas of operation, the ability to recruit and retain qualified personnel, and the Company's ability to raise capital.

Outlook

Ceapro's strategic focus is to increase sales and expand markets for active ingredients, to market and develop additional high-value proprietary therapeutic products, and to advance new technology to a partnering position. As a knowledge-based enterprise, Ceapro will also expand and strengthen its patent portfolio, and build the necessary manufacturing infrastructure to become a global biotechnology company. To support these objectives, Management believes that it has the requisite resources (intellectual and human capital) and the competitive advantages (partnerships) to exploit its technology.

Management intends to implement Ceapro's strategic goals and operating plans in a measured and responsible manner. We expect Ceapro's operating results and financial position to continue to improve as we move into 2004, however, it is necessary to caution that the pace of improvement may be impacted by the investments required to continue to grow the business and product lines.

Management and Auditors' Reports

MANAGEMENT'S REPORT
To the Shareholders of CEAPRO INC.

The accompanying consolidated financial statements of Ceapro Inc., and all information presented in this annual report, are the responsibility of Management and have been approved by the Board of Directors. The financial statements have been prepared by Management in accordance with Canadian generally accepted accounting principles. To further the integrity and objectivity of data in the financial statements, Management of the Company has developed and maintains a system of internal accounting controls, which Management believes will provide reasonable assurance that financial records are reliable and form a proper basis for preparation of financial statements, and that assets are properly accounted for and safeguarded.

The Board of Directors carries out its responsibility for the financial statements in this annual report principally through its Audit Committee. The Audit Committee is appointed by the Board, and all of its members are outside and unrelated Directors. The Committee meets periodically with Management and the external auditors, to discuss internal controls over the financial reporting process and financial reporting issues, to make certain that each party is properly discharging its responsibilities, and to review quarterly reports, the annual report, the annual financial statements, and the external auditors' report. The Committee reports its findings to the Board for consideration when approving the financial statements for issuance to the shareholders. The Company's auditors have full access to the Audit committee, with and without Management being present.

These financial statements have been audited by the Company's auditors, Stout & Company LLP.

Sincerely,

Signed "Mark J. Redmond, Ph.D."
President and Chief Executive Officer

Signed "Edward A. Taylor"
Chairman

AUDITORS' REPORT
To the Shareholders of CEAPRO INC.

We have audited the consolidated balance sheets of Ceapro Inc. as at December 31, 2003 and 2002, and the consolidated statements of income and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Edmonton, Canada
February 18, 2004

Signed "Stout & Company LLP"
Chartered Accountants

CEAPRO INC.

CONSOLIDATED BALANCE SHEETS

	Years Ended December 31 2003	2002
ASSETS		
CURRENT ASSETS		
Cash	$ 248,443	$ 25,392
Accounts receivable	514,154	274,868
Inventories	115,556	56,817
Prepaid expenses	29,971	14,759
	908,124	371,836
PROPERTY AND EQUIPMENT (note 3)	347,188	273,511
	$ 1,255,312	$ 645,347
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 535,623	$ 465,527
Loans payable	–	20,123
Current portion of convertible debentures (note 4)	9,436	42,498
Current portion of long-term debt (note 5)	76,975	94,196
	622,034	622,344
CONVERTIBLE DEBENTURES (note 4)	17,510	371,018
LONG-TERM DEBT (note 5)	127,540	222,338
ROYALTIES PAYABLE (note 6)	105,998	82,616
	873,082	1,298,316
SHARE CAPITAL AND DEFICIT		
SHARE CAPITAL (note 7)	1,987,867	1,394,706
DEFICIT	(1,605,637)	(2,047,675)
	382,230	(652,969)
	$ 1,255,312	$ 645,347

See accompanying notes

Approved On Behalf Of The Board

Signed "Edward A. Taylor"
Director

Signed "David B. Harvey"
Director

CEAPRO INC.

CONSOLIDATED STATEMENTS OF INCOME AND DEFICIT

	Years ended December 31	
	2003	2002
Sales (note 9)	**$ 2,218,262**	$ 1,487,188
Cost of goods sold	**928,115**	728,951
Gross margin	**1,290,147**	758,237
Royalties and licenses	**206,098**	114,739
	1,496,245	872,976
Expenses		
General and administration	**856,598**	568,545
Sales and marketing	**230,701**	203,967
Royalties	**179,475**	48,800
Interest on convertible debentures	**32,149**	88,122
Interest on long-term debt	**15,624**	5,434
Amortization	**59,960**	23,567
	1,374,507	938,435
Income (loss) from operations	**121,738**	(65,459)
Other income (expenses)		
Other income (note 10)	**674,044**	441,148
Research and product development	**(353,744)**	(259,915)
	320,300	181,233
Income before income taxes	**442,038**	115,774
Income taxes		
Current	**275,437**	1,391,854
Reduction as a result of applying non-capital losses carried forward against current year's taxable income	**(275,437)**	(1,391,854)
NET INCOME FOR THE YEAR	**442,038**	115,774
Deficit at beginning of year	**(2,047,675)**	(47,098,926)
Reduction of stated capital and deficit (note 7(c))	**–**	44,935,477
DEFICIT AT END OF YEAR	**$ (1,605,637)**	$ (2,047,675)
Net income per share (note 12)		
Basic	**$ 0.014**	$ 0.004
Diluted	**$ 0.013**	$ 0.004

See accompanying notes

CEAPRO INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years ended December 31	
	2003	2002
OPERATING ACTIVITIES		
Net income for the year	**$ 442,038**	$ 115,774
Items not affecting cash		
Amortization	**59,960**	23,567
Settlement of accounts payable and loans payable	**–**	(38,702)
Conversion of debentures, loans, and interest to royalty interest	**(304,123)**	(122,400)
Stock-based compensation	**89,872**	25,137
	287,747	3,376
Changes in non-cash working capital items		
Accounts receivable	**(239,286)**	(194,988)
Inventories	**(58,739)**	29,994
Prepaid expenses	**(15,212)**	40,332
Accounts payable and accrued liabilities	**96,061**	30,369
	(217,176)	(94,293)
	70,571	(90,917)
INVESTING ACTIVITIES		
Purchase of property and equipment	**(133,637)**	(196,341)
FINANCING ACTIVITIES		
Proceeds from issuance of share capital	**76,210**	–
Proceeds from exercise of options	**52,860**	–
Proceeds from exercise of warrants	**225,685**	–
Decrease in convertible debentures	**(15,000)**	–
(Decrease) increase in long-term debt	**(112,019)**	220,250
Increase in royalties payable	**58,381**	41,593
	286,117	261,843
Increase (decrease) in cash	**223,051**	(25,415)
Cash at beginning of year	**25,392**	50,807
CASH AT END OF YEAR	**$ 248,443**	$ 25,392
Supplementary information:		
Interest paid	**$ 55,018**	$ 81,513

See accompanying notes

CEAPRO INC.

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Net income per share (note 12)		
Basic	**$ 0.014**	$ 0.004
Diluted	**$ 0.013**	$ 0.004

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CEAPRO INC.

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Supplementary information:		
Interest paid	**$ 55,018**	$ 81,513

See accompanying notes

1. NATURE OF BUSINESS OPERATIONS

Ceapro Inc. (the "Company") was incorporated under the Canada Business Corporations Act and is listed on the TSX Venture Exchange. The Company's primary business activities relate to the marketing and development of various health and wellness products and technology relating to oat extracts.

2. ACCOUNTING POLICIES

(a) Use of estimates
The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of the assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The significant areas requiring the use of management estimates relates to amortization of property and equipment, the interest rate and stock volatility used in determining stock-based compensation and the interest rate used in determining the equity component of the convertible debentures. Actual results could differ from those estimates.

(b) Principles of consolidation
The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Ceapro Technology Inc.

(c) Revenue recognition
Revenue from the sale of health and wellness products is recognized as revenue at the time the products are shipped to customers. Revenue from the sale of royalty and lawsuit interests, and royalty and license agreements is recorded in accordance with the terms of the applicable agreements.

(d) Inventories
Inventory of raw materials is valued at the lower of cost and replacement cost on a first-in, first-out basis. Inventory of work-in-progress and finished goods is valued at the lower of cost and net realizable value on an average cost basis.

(e) Property and equipment
Property and equipment are recorded at cost and are amortized over their estimated useful lives as follows:

Manufacturing equipment	20% declining balance
Office equipment	20% declining balance
Computer equipment	30% declining balance
Manufacturing equipment under capital lease	20% declining balance

(f) Research and product development expenditures
Research costs are expensed when incurred. Product development costs are also expensed when incurred unless they are significant and meet generally accepted criteria for deferral. Costs are reduced by government grants and investment tax credits where applicable.

(g) Foreign currency
Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at year end exchange rates and non-monetary assets at the exchange rates prevailing when the assets were acquired. Foreign currency denominated revenue and expense items are translated at the rate of exchange in effect at the time of the transaction. Foreign currency gains or losses arising on translation are included in income.

(h) Income taxes
Income taxes are accounted for by the asset and liability method whereby future tax assets and liabilities are recognized for the future tax consequences attributable to the differences between the financial statement carrying amounts of existing assets and liabilities and their respective income tax bases.

2. ACCOUNTING POLICIES (continued)

(i) Lease obligations
Leases are classified as capital or operating leases. A lease that transfers substantially all of the benefits and risks incidental to the ownership of property is classified as a capital lease. At the inception of a capital lease, an asset and an obligation are recorded at an amount equal to the lesser of the present value of the minimum lease payments and the property's fair value at the beginning of the lease. All other leases are accounted for as operating leases wherein payments are expensed as incurred.

(j) Government assistance
Government assistance is periodically granted to the Company under available government incentive programs. Government assistance relating to research and development expenditures is recorded as a reduction of the expenditures when received.

(k) Investment tax credits
Investment tax credits relating to qualifying scientific research and experimental development expenditures are accrued provided there is reasonable assurance that the credits will be realized. When recorded, the investment tax credits are accounted for as a reduction of the related expenditures.

(l) Net income per share
Net income per share is calculated based on the weighted average number of shares outstanding during the year. Diluted net income per share reflects the assumed conversion of all dilutive securities using the treasury stock method.

(m) Stock-based compensation
Stock-based compensation of employees, Directors, Officers and consultants is recorded in accordance with the fair value based method.

3. PROPERTY AND EQUIPMENT

		2003	
	Cost	**Accumulated Amortization**	**Net Book Value**
Manufacturing equipment	**$ 402,804**	**$ 102,996**	**$ 299,808**
Computer and office equipment	**185,537**	**138,157**	**47,380**
	$ 588,341	**$ 241,153**	**$ 347,188**

		2002	
	Cost	Accumulated Amortization	Net Book Value
Manufacturing equipment	$ 267,840	$ 43,251	$ 224,589
Computer and office equipment	160,552	126,350	34,202
Manufacturing equipment under capital lease	29,810	15,090	14,720
	$ 458,202	$ 184,691	$ 273,511

4. CONVERTIBLE DEBENTURES (Series 1 to 5)

	2003	2002
Original face value issued	$ 446,522	$ 922,233
Converted to royalty interests	(234,585)	(91,270)
Converted to shares	(166,937)	(384,441)
Repaid	(15,000)	–
Remaining face value	30,000	446,522
Equity component	(3,054)	(33,006)
	26,946	413,516
Less current portion	9,436	42,498
	$ 17,510	$ 371,018

At December 31, 2003, there are two remaining series of convertible debentures which are unsecured, bear interest at 12% and 10% and are due July 28, 2004 and April 23, 2005 at conversion rates per common share of $1.40 and $0.75 to $1.00 respectively.

Debenture interest payments in default at December 31, 2003 amounted to $Nil (2002 – $41,378).

5. LONG-TERM DEBT

	2003	2002
Capital lease obligation, payable $1,586 per month, due October, 2003. Manufacturing equipment under capital lease has been provided as security.	$ –	$ 15,860
Less amount representing interest at 9.5%.	–	672
		15,188
Loan, payable $4,006 per month, principal and interest at 7.75%, secured by specific manufacturing equipment and a general security agreement, due September, 2005.	– 159,683	174,213
Loan, payable $10,000 per quarter, principal only, unsecured, due December, 2005.	44,832	122,332
Loan, payable $354 per month, principal and interest at 8.50%, secured by manufacturing equipment, due October, 2003.	–	3,409
Loan, payable $120 per month, principal and interest at 7%, secured by manufacturing equipment, due December, 2003.	–	1,392
	204,515	316,534
Less current portion	76,975	94,196
	$ 127,540	$ 222,338

Estimated principal payments due in the next four years are as follows:

2004	$ 76,975
2005	44,777
2006	43,153
2007	39,610
	$ 204,515

6. ROYALTIES PAYABLE

	2003	2002
Royalties, payable $13,250 per quarter, unsecured	$ 158,997	$ 100,616
Less current portion (included in accounts payable)	52,999	18,000
	$ 105,998	$ 82,616

In the year ended December 31, 1999, the Company received financial assistance in the amount of $164,882 for the research and development of new products, patents and markets. The Company is obligated to pay a 5% royalty (to a maximum of two times the financial assistance received) on sales generated from products developed using these funds.

7. SHARE CAPITAL

(a) Authorized:

Unlimited number of Class A voting common shares
Unlimited number of Class B non-voting common shares

(b) Issued – Class A common shares:

	2003		2002	
	Number of shares	**Amount**	Number of shares	Amount
Balance at beginning of year	**32,211,108**	**$ 1,394,706**	29,360,122	$ 45,961,622
Changes during the year:				
Reduction of stated capital	–	–	–	(44,935,477)
Exercise of options	**485,715**	**73,289**	431,250	19,050
Conversion of debentures	**693,933**	**125,608**	2,419,736	384,441
Sale of royalty interest units (note 8(d))	**496,488**	**129,087**	–	–
Exercise of warrants (note 8(d))	**433,231**	**225,685**	–	–
Decrease in equity component of convertible debentures	–	**(29,951)**	–	(41,017)
Employment termination agreement (note 7(f))	**500,000**	**100,000**	–	–
Equity component of stock–based compensation, net	–	**(30,557)**	–	6,087
Escrowed shares cancelled	**(651,262)**	–	–	–
	34,169,213	**$ 1,987,867**	32,211,108	$ 1,394,706

(c) On July 4, 2002, the Company's shareholders approved a resolution to reduce the Company's stated capital and accumulated deficit by $44,935,477 respectively to reflect accurately the current realizable assets of the Company and the cumulative results of its operations from the time its debts were restructured and the current ongoing business was re-established.

(d) The Company has granted stock options to eligible employees, Directors, Officers, and consultants under stock option plans, that vest over periods ranging from eighteen months to three years, and have a maximum term of five years.

The Company accounts for options granted under this plan in accordance with the fair value based method of accounting for stock-based compensation. The application of the fair value based method requires the use of certain assumptions regarding the risk-free market interest rate, expected volatility of the underlying stock and life of the options. The risk-free rate used in the current year was 4.08%, the expected volatility was 6.76% which was based on prior trading activity of the Company's shares, and the expected life of the options was 5 years. The stock-based compensation expense recorded during the current year was $89,872 (2002 – $25,137).

7. SHARE CAPITAL (continued)

A summary of the status of the Company's stock options at December 31, 2003 and 2002 and changes during the years ending on those dates is as follows:

	2003		2002	
	Number of Options	**Weighted Average Exercise Price**	Number of Options	Weighted Average Exercise Price
Outstanding at beginning of year	**3,611,966**	**$ 0.19**	2,932,500	$ 0.20
Granted	**2,126,600**	**0.25**	1,110,716	0.17
Expired	**(175,665)**	**0.21**	–	–
Exercised	**(485,715)**	**0.16**	(431,250)	0.18
Outstanding at end of year	**5,077,186**	**0.22**	3,611,966	0.19
Exercisable at end of year	**3,931,386**	**$ 0.21**	2,435,804	$ 0.20

The following table summarizes stock options outstanding at December 31, 2003 and 2002:

		2003	2002
Year of Expiration	Exercise Price	**Number of Options**	Number of Options
2008	$ 0.25	**2,126,600**	–
2007	$ 0.17	**886,251**	1,110,716
2006	$ 0.19	**450,000**	565,000
2006	$ 0.20	**344,335**	451,250
2005	$ 0.12	**495,000**	660,000
2004	$ 0.25	**750,000**	800,000
2004	$ 1.00	**25,000**	25,000
		5,077,186	3,611,966

Subsequent to December 31, 2003, 50,000 Class A common shares were issued upon the exercise of stock options for aggregate proceeds of $12,500, and pursuant to a compensation agreement (note 8(e)), a senior employee exercised 450,000 stock options at an exercise price of $0.19. The fair value of the options at the time they were granted of $17,077 will be transferred from the equity component of stock-based compensation to share capital.

(e) During the year ended December 31, 2001 the Company and certain senior employees and a former senior employee agreed to convert deferred salaries to stock-based compensation. As at December 31, 2003, the Company is obliged to pay these employees up to $215,000 (2002 – $239,200) contingent upon the employees exercising the employee stock options until expiry of the agreements on December 31, 2004. During the year ended December 31, 2003 a senior employee exercised 126,250 stock options (2002 – 431,250) at exercise prices ranging from $0.19 to $0.20 (2002 – $0.12 to $0.20). The fair value of the options at the time they were granted of $4,372 (2002 – $19,050) has been transferred from the equity component of stock-based compensation to share capital.

(f) During the year ended December 31, 2003, the Company issued 500,000 Class A common shares for nil consideration, in satisfaction of the terms of an employment termination agreement. The fair value of the shares at the time the employment termination agreement was reached was $100,000. This amount has been transferred from the equity component of stock-based compensation to share capital.

8. CONTINGENCIES AND COMMITMENTS

(a) On May 5, 1998, control of the Company's wholly-owned subsidiary, Canamino Inc. ("Canamino") was assumed by Canamino's Class B preferred shareholder, the Saskatchewan Government Growth Fund Ltd. ("SGGF"), due to default of payment of dividends due in October 1997, and the failure to redeem 500,000 Class B preferred shares as required under the subscription agreement. Control was gained through the assumption of 51% of the voting entitlement attached to the Class A common shares.

8. CONTINGENCIES AND COMMITMENTS (continued)

On March 22, 2002, the Company filed a Statement of Claim ("the claim") with the Court of Queen's Bench of Saskatchewan. With the filing in Saskatchewan, the Company stayed its action in the Court of Queen's Bench of Alberta which was originally filed in December, 1999. The claim alleges that the Company has suffered damage to goodwill and other property, including its investments in Canamino.

During the year, the Company issued a bond relating to legal costs up to $305,000 which was secured by personal guarantees of the Board of Directors and an Officer of the Company. At December 31, 2003, it is the opinion of the Company's Corporate Counsel that based on the document production to date and examinations which have transpired, the likely outcome of the case is that the Company will be successful. At this stage of the litigation it is premature to quantify the damages which will likely be awarded at the discretion of the Court; therefore no amount has been accrued in these financial statements with respect to this claim.

During the year ended December 31, 2003, the Company received $37,500 (2002 – $210,000) from the sale of a 1.5% (2002 – 8.4%) interest in the net proceeds, if any, from the claim. As at December 31, 2003 investors are entitled to 14.7% of the net proceeds, if any, from the claim to a maximum of $3,675,000.

During the year ended December 31, 2003, a Director and an investor agreed to invest (by reimbursement of direct legal costs) up to $100,000 (2002 – $250,000) to purchase an interest in the net proceeds, if any, from the claim. At December 31, 2003, the Director and investor are entitled to 14% of the net proceeds, if any, from the claim, to a maximum $3,500,000.

(b) On March 1, 2002 the Company received notice of a Statement of Claim filed on February 28, 2001 by a former employee. The statement alleges that the Company breached certain conditions of contract between the former employee and the Company. At December 31, 2003, it is the opinion of the Company's Corporate Counsel that it is likely that the Company will be successful in dismissing this claim.

(c) During the year ended December 31, 2003, the Company earned $141,796 (2002 – $172,401) representing the sale of a 1.418% (2002 – 1.724%) royalty interest in the Company's future sales and licensing of active ingredients and animal health products. Maximum royalties payable are two times the amount invested. At December 31, 2003, $314,197 has been invested.

(d) On July 15, 2003 the Company completed a Royalty Income Unit offering through the terms described in an Offering Memorandum, which resulted in proceeds of $635,273 (496,488 units at $1.30 per unit, net of related expenses). As a result, 293,115 units ($381,049) were issued for cash consideration and 203,373 units ($264,385) were issued in satisfaction of amounts owing to holders of debentures and other loans. Each unit is comprised of one Class A common share of the Company ("common share"), one Class A common share purchase warrant ("warrant"), and a royalty interest ("royalty interest"). Each warrant will entitle the holder thereof to acquire one Class A common share at an exercise price of $0.36 per share until August 31, 2003 and thereafter at a price of $0.56 per share until December 31, 2003. Each royalty interest is a right to receive royalties equal to 0.00001% of the proceeds received by the Company from the sale or licensing of its active ingredients and animal health products, up to a maximum cumulative amount of $2.08. The Class A common shares issued upon exercise of the warrants are subject to a hold on trading to July 15, 2004. During the year 433,231 of the warrants issued were exercised which resulted in proceeds of $225,685.

$506,186 (496,488 units at $1.04 per unit) of the proceeds (net of expenses) from this private placement is included in the Company's other income. This represents the sale of a 5.163% royalty interest in the Company's future sales and licensing of active ingredients and animal health products. Maximum royalties payable are two times the amount invested or $1,032,695.

(e) During the year ended December 31, 2001, the Company entered into an employment termination agreement with a former employee. The agreement provides that should the Company realize proceeds in excess of $4,000,000 by December 21, 2004 from the lawsuit described in note 8(a) or should the Company complete a partnership agreement or major financing agreement in excess of $4,000,000 by December 21, 2004, a $200,000 severance amount would be payable to the former employee.

(f) In the normal course of operations the Company may be subject to litigation and claims from customers, suppliers and former employees. Management believes that adequate provisions have been recorded in the accounts where required. Although it is not possible to estimate the extent of potential costs, if any, management believes that the ultimate resolution of such contingencies would not have a material adverse effect on the financial position of the Company.

8. CONTINGENCIES AND COMMITMENTS (continued)

(g) Effective January 1, 2004, the Company modified its existing lease agreement for its office premises. The lease requires the Company to pay an annual base rent of $39,774 per year plus its share of maintenance and operating costs until expiry December 31, 2004.

9. SALES

Substantially all sales are export sales to two distributors of the Company's products. The Company is therefore economically dependent on those distributors to maintain and expand the volume of product sales to existing and new customers.

10. OTHER INCOME

Other income is comprised as follows:

	2003	2002
Sale of royalty interests	**$ 647,983**	$ 172,401
Sale of lawsuit interests	**37,500**	210,000
Foreign exchange (losses) gains	**(22,871)**	20,045
Other	**11,432**	38,702
	$ 674,044	$ 441,148

11. INCOME TAXES

(a) Non-capital losses
The Company has accumulated non-capital losses carried forward for income tax purposes of approximately $5,600,000 the benefit of which has not been reflected in these consolidated financial statements. These losses may be applied against future taxable income within the limitations prescribed by the Income Tax Act and expire as follows:

2004	$ 1,771,000
2005	1,748,000
2006	661,000
2007	683,000
2008	571,000
2009	166,000
	$ 5,600,000

(b) Net capital losses
The Company has net capital losses of approximately $6,807,000, which can be carried forward indefinitely to offset future taxable capital gains.

(c) Scientific research and experimental development (SR & ED)
The Company has an accumulated SR & ED expenditure pool of approximately $1,506,000, which can be carried forward indefinitely to be applied against future taxable income.

The Company has accumulated SR & ED investment tax credits of approximately $285,000. These credits may be applied against future federal income taxes payable and expire as follows:

2004	$ 25,300
2005	65,800
2006	37,900
2007	119,000
2008	16,000
2009	400
2012	20,600
	$ 285,000

11. INCOME TAXES (continued)

(d) Temporary differences

A future income tax asset reflects the net effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's future income tax assets are as follows:

Deductible temporary differences:

	2003	2002
Non-capital losses and SR & ED expenditures carried forward	**$ 7,106,000**	$ 7,689,000
Net capital losses carried forward	**3,404,000**	3,404,000
Undepreciated capital cost for tax purposes in excess of net book value	**6,942,000**	1,195,000
	$ 17,452,000	$ 12,288,000

For consolidated financial statement purposes, no future income tax asset has been recorded at December 31, 2003 and 2002 as it is not more likely than not to be realized.

(e) Income tax rate reconciliation

The Company's consolidated income tax position comprises tax benefits and provisions arising from the respective tax positions of its taxable entities. The Company's income tax provision differs from that calculated by applying statutory rates for the following reasons:

	2003	2002
Income taxes based on combined federal and provincial statutory income tax rate of 36.75% (2002 – 39.24%)	**$ 162,449**	$ 45,430
Tax effect of expenses that are not deductible for income tax purposes	**52,090**	15,494
Tax effect of current year non-capital losses not recognized	**60,898**	–
Tax effect of gain on sale of patent to subsidiary	**–**	1,330,930
Income tax rate reduction as a result of applying non-capital losses carried forward against current year taxable income	**(275,437)**	(1,391,854)
Income tax expense	**$ –**	$ –

12. BASIC AND DILUTED NET INCOME PER SHARE

The following table outlines the calculation of basic and diluted net income per share:

	2003	2002
Numerator		
Numerator for basic and diluted net income per share:		
Net income for the year	**$ 442,038**	$ 115,774
Denominator		
Denominator for basic net income per share:		
Weighted-average number of shares outstanding during the year	**32,657,444**	31,074,160
Effect of potentially dilutive securities:		
Stock options	**2,721,660**	1,464,669
Denominator for diluted net income per share:		
Adjusted weighted-average number of shares outstanding during the year	**35,379,104**	32,538,829
Basic net income per share	**$ 0.014**	$ 0.004
Diluted net income per share	**$ 0.013**	$ 0.004

The dilutive effect of outstanding stock options on net income per share is based on the application of the treasury stock method. Under the treasury stock method, the proceeds from the exercise of options is assumed to be used to purchase common shares.

12. BASIC AND DILUTED NET INCOME PER SHARE (continued)

For the year ended December 31, 2003, the following were not included in the calculation of diluted net income per share as the exercise price exceeded the average trading value of the shares: 25,000 options for common shares with an exercise price of $1.00 per share and 496,488 warrants for common shares with exercise prices between $0.36 and $0.56 per share. Convertible debentures were not included in the calculation of diluted net income per share as the result would be anti-dilutive.

For the year ended December 31, 2002, the following were not included in the calculation of diluted net income per share as the exercise price exceeded the average trading value of the shares: 1,846,769 options for common shares with an exercise price between $0.17 and $1.00. Convertible debentures were excluded from the calculation of net income per share as the result would be anti-dilutive.

13. RELATED PARTY TRANSACTIONS

Related party transactions during the years not otherwise disclosed in these consolidated financial statements are as follows:

	2003	2002
Interest expense paid or payable to employees and Directors	**$ 1,526**	$ 10,935
Royalties earned by employees and Directors	**32,307**	5,967
Sale of royalty and lawsuit interests to employees and Directors	**77,314**	96,316
Amounts payable to employees and Directors included in accounts payable and accrued liabilities	**72,676**	102,936
Convertible debentures payable to employees and Directors	**–**	45,643
Amounts receivable from Directors included in accounts receivable	**136,035**	49,489
Reimbursement of legal fee expenses by a Director	**203,275**	96,725
Amounts owing to a Director included in loans payable	**–**	2,500

These transactions are in the normal course of operations and are measured at the exchange amount which is the amount of consideration established and agreed to by the related parties.

14. FINANCIAL INSTRUMENTS

The estimated fair value of cash, accounts receivable and accounts payable and accrued liabilities, loans payable, and current portions of convertible debentures and long-term debt approximates their carrying value due to their short-term nature.

The fair value of long-term debt, convertible debentures, and royalties payable are estimated to approximate their carrying value using the Company's incremental borrowing rate or discounted cash flow analysis for similar types of borrowing arrangements.

The Company operates internationally, giving rise to exposure to market risks from changes in foreign exchange rates in relation to the resulting accounts receivable and accounts payable and accrued liabilities.

The Company is exposed, in its normal course of business, to credit risk from customers. Of the outstanding accounts receivable at December 31, 2003, 56% and 23% of the balance is due from one customer and one Director respectively. No other single party accounts for a significant balance of accounts receivable.

15. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with financial statement presentation adopted for the current year.

Information for Investors

Directors

Edward Taylor, Chairman
Donald Byers
David Harvey
Donald Oborowsky
John Yewchuk
John Zupancic

Executive Officer

Mark J. Redmond, Ph.D.
President and
Chief Executive Officer

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Chartered Bank

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10205 – 101 Street
Edmonton AB T5J 2Y8
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Listed on the TSX Venture Stock Exchange
Symbol: CZO

Transfer Agent & Registrar

Olympia Trust Company
460 Sunlife Place
10123 – 99 Street
Edmonton AB T5J 3H1
Canada
Tel: 1.780.496.9713
Fax: 1.780.408.3382

Change of Address

Registered Shareholders should notify the Company's Transfer Agent and Registrar at the address set out above.

Beneficial Owners should contact their respective brokerage firm to give notice of a change of address.

Financial Calendar

The Company's year-end is December 31.
The Annual Report is mailed in May.
Quarterly Reports are mailed in May, August, and November.

Equal Opportunity Employer

Ceapro Inc. is an equal opportunity employer and seeks to attract and retain the best-qualified people regardless of race, religion, national origin, gender, sexual orientation, age, or disability.

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